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Message Text

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ORIGIN EA-10

INFO OCT-01 ISO-00 AGR-05 CIAE-00 COME-00 EB-07 INR-07

LAB-04 NSAE-00 SP-02 STR-01 TRSE-00 CIEP-01 FRB-03

OMB-01 L-02 XMB-02 AID-05 SS-15 NSC-05 /071 R

DRAFTED BY EA/ROC:KWEAVER:EB/FTD:AJWILLIAMS:BD
APPROVED BY EA: EEDMOND
USDA - K. STEPHENS
USDA - G. RATHELL
---------- 021330
P R 122353Z MAR 75
FM SECSTATE WASHDC
TO AMEMBASSY TAIPEI PRIORITY
INFO AMEMBASSY BANGKOK
AMEMBASSY MANILA
AMEMBASSY SEOUL

C O N F I D E N T I A L STATE 055961

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: COTTON CONTRACT PROBLEM

REF: (A) STATE 46927; (B) STATE 51486; (C) TAIPEI 1105

FOR AMBASSADOR FROM HABIB

1. WE HAVE CAREFULLY REVIEWED FORMAL GROC PROPOSAL TO RESOLVE COTTON CONTRACT PROBLEM AS RECEIVED FROM ROC EMBASSY (REFTEL A). AS YOU KNOW, NAC HAS APPROVED $25 MILLION 3-YEAR CCC CREDIT FOR THE ROC TO FINANCE THE PURCHASE OF COTTON CONTRACTED FROM US SHIPPERS.

2. AS STATED REFTEL B, WE ARE ASKING FOR "WRITTEN ASSURANCES" THAT COTTON CONTRACTS WILL BE HONORED. THESE

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ASSURANCES DIFFER ONLY SLIGHTLY IN SUBSTANCE FROM THOSE

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OFFERED BY THE ROC (REFTEL A). PRINCIPAL DIFFERENCES INVOLVE (A) A SCHEDULE FOR THE OPENING OF PAST DUE CONTRACTS AND (B) A REQUIREMENT THAT L/C'S FOR THE OLDEST CONTRACTS BE OPENED FIRST.

3. THE ASSURANCES SHOULD BE CONTAINED IN A LETTER FROM MINISTER OF ECONOMIC AFFAIRS Y.S. SUN TO THE AMBASSADOR. FYI. WE HAVE ASKED THAT THE ASSURANCES BE CONTAINED IN A LETTER FROM SUN TO YOU, BECAUSE WE WISH TO AVOID ANY EXCHANGE OF LETTERS BETWEEN GROC AND USG, THUS POSSIBLY RAISING QUESTIONS AS TO WHETHER USG WAS ASSUMING COMMITMENTS APART FROM EXTENSION OF CCC CREDITS. FOR THIS REASON, IF SUN DOES PROVIDE YOU WITH LETTER SUGGESTED ABOVE, YOU SHOULD NOT RPT NOT ACKNOWLEDGE IT IN WRITING. END FYI. TEXT OF LETTER REQUESTED IS AS FOLLOWS:",
"1. ALL CCC CREDITS WILL BE UTILIZED EXCLUSIVELY TO FINANCE CURRENT US COTTON CONTRACTS WITH A DATE OF SALE PRIOR TO AUGUST 1, 1974. THIS STIPULATION INCLUDES BOTH CONTRACTS WHICH ARE PAST DUE AS WELL AS CONTRACTS WITH DELIVERY DATES PRIOR TO THE END OF THE CURRENT MARKETING YEAR, JULY 31, 1975.

"2. THE ROC GUARANTEES THAT REPAYMENT DRAFTS, DRAWN BY CCC ON TAIWAN BANKS UNDER THE APPLICABLE LETTERS OF CREDIT, WILL BE HONORED.

"3. THE ROC WILL TAKE WHATEVER MEASURES ARE NECESSARY TO ENSURE THE OPENING OF LETTERS OF CREDIT IN ACCORDANCE WITH THE FOLLOWING PROCEDURES:

A) ALL SALES WILL BE LISTED BY MILL.
B) FOR EACH MILL THE CONTRACTS WILL BE LISTED BY TYPE OF COTTON: TYPE A: 1-1/32 INCH AND SHORTER; TYPE B: 1-1/16 OR OVER: TYPE C: SAN JOAQUIN.
C) UNDER EACH TYPE, SALES (CONTRACTS) WILL BE SEPARATED INTO FOUR PERIODS BASED ON THE DELIVERY DATE IN THE CONTRACT: PERIOD I - CONTRACTS WITH DELIVERY DATES PRIOR TO NOVEMBER 30, 1974, PERIOD II - CONTRACTS WITH DELIVERY DATES FROM DECEMBER 1, 1974, THROUGH FEBRUARY 28, 1975. PERIOD III - CONTRACTS WITH DELIVERY DATES FROM
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MARCH 1, 1975, THROUGH MAY 31, 1975. PERIOD IV - CONTRACTS WITH DELIVERY DATES FROM JUNE 1, 1975, THROUGH JULY 31, 1975.
D) LETTERS OF CREDIT WILL BE OPENED ON CONTRACTS WITHIN EACH OF THESE GROUPS ACCORDING TO THE FOLLOWING SCHEDULE:

SHIPMENTS DUE PRIOR TO:	L/C'S WILL BE OPENED BY:
NOVEMBER 30, 1974 (PERIOD I)	APRIL 15, 1975

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FEB. 28, 1975 (PERIOD II) MAY 15, 1975
MAY 31, 1975 (PERIOD III) JUNE 15, 1975
JULY 31, 1975 (PERIOD IV) ON DATE SPECIFIED IN CONTRACT
E) WITHIN EACH TYPE OF COTTON THE CONTRACTS WILL BE LISTED BY DATE OF SALE, WITH THE OLDEST DATES LISTED FIRST.
F) WITHIN THE PERIODS SPECIFIED IN PARA 3(C) AND (D) ABOVE, A MILL MAY OPEN LETTERS OF CREDIT FOR ANY TYPE OF COTTON WHICH THE MILL HAS ON CONTRACT. WITHIN EACH TYPE OF COTTON INDIVIDUAL MILLS WILL OPEN LETTERS OF CREDIT ON THE OLDEST CONTRACTS FIRST.

"4) A LIST OF OUTSTANDING SALES (CONTRACTS)FOR THE CURRENT COTTON MARKETING YEAR, ORGANIZED IN ACCORDANCE WITH THE CATEGORIES SPECIFIED IN PARAGRAPHS 3 (A) THROUGH (F), IS ATTACHED TO THIS LETTER AS AN ANNEX. THIS LIST IS AS COMPLETE AS WE CAN NOW MAKE IT. HOWEVER, IT IS UNDERSTOOD THAT CONTRACTS WHICH MEET THE REQUIREMENTS OF PARAGRAPHS 1 AND 3 OF THIS LETTER SHALL BE ADDED AT A LATER DATE AT THE REQUEST OF THE GOVERNMENT OF REPUBLIC OF CHINA OR THE GOVERNMENT OF THE UNITED STATES OF AMERICA.
"5) THE ROC WILL ARRANGE FOR FINANCING TO BE PROVIDED FOR THE SALES OF U.S. COTTON LISTED IN THE ANNEX OF THIS LETTER, OR WILL ITSELF PROVIDE THE NECESSARY FINANCING, IN THOSE CASES WHERE THE SALES IN QUESTION CANNOT BE COVERED BY CCC CREDIT.

"6) THE ROC AGREES TO PROVIDE USDA, OFFICE OF THE ASSISTANT ADMINISTRATOR, COMMERCIAL EXPORT PROGRAMS WITH A LIST OF SALES (CONTRACTS) WHICH WILL BE USED BY USDA TO ALLOCATE ALL OUTSTANDING CCC CREDIT TO U.S. SHIPPERS. EACH SALE WILL BE LISTED UNDER THE NAME OF THE PURCHASING MILL. THE LIST WILL CONTAIN THE VALUE, NUMBER OF BALES AND THE NAME OF THE U.S. SHIPPER FOR EACH SALE. THE LIST WILL CONFIDENTIAL

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INCLUDE THE AMOUNT OF THE ALLOCATION TO BE RECEIVED BY EACH MILL AND IDENTIFY THE INDIVIDUAL SALES COMPRISING EACH ALLOCATION."

4. TO AVOID SUBSEQUENT MISUNDERSTANDING, IT SHOULD BE CONVEYED TO THE ROC WHEN THE TEXT OF THE LETTER IS DELIVERED THAT:
A. THE LETTER REQUESTED FROM THE MINISTER OF ECONOMIC AFFAIRS IS NOT RPT NOT A PART OF CCC REGULATIONS BUT RATHER WILL SERVE AS AN EXPRESS STATEMENT OF THE ROC'S UNDERTAKING REGARDING THE CCC CREDITS.

B. THE DETAILED SCHEDULE DISCUSSED IN PARA 3 (3) AND (4) OF THE PROPOSED DRAFT LETTER IS DESIGNED TO GIVE MILLS AS MUCH FLEXIBILITY AS POSSIBLE IN CHOOSING THE TYPE RPT

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TYPE COTTON WHICH THEY WISH TO UTILIZE FIRST. IT IS ALSO INTENDED TO INSURE THAT OVERDUE CONTRACTS ARE LIQUIDATED AT A REASONABLE RATE, WITH THE OLDEST CONTRACTS (WITHIN EACH TYPE OF COTTON) BEING LIQUIDATED FIRST.

C. THE PROVISION IN PARA 3 (4) THAT CONTRACTS MAY BE ADDED TO ANNEX WILL BE USED SPARINGLY BY USG AND ONLY WHEN DATE OF SALE OF CONTRACT IS PRIOR TO AUG. 1, 1974, AND DATE OF DELIVERY PRIOR TO JULY 31, 1975. PROVISION IS INTENDED TO ALLOW FOR POSSIBLE INADVERTENT OMISSIONS OF ELIGIBLE CONTRACTS FROM COMPLICATED ANNEX. WE EXPECT FEW

IF ANY OMISSIONS, HOWEVER.

5. WE WILL PROVIDE ANNEX TO LETTER. THIS IS NOW UNDER PREPARATION AND WILL FOLLOW SHORTLY. THE ANNEX IS AN ESSENTIAL PART OF THE LETTER, BUT IN VIEW OF THE IMPORTANCE WE ATTACH TO AN EARLY SOLUTION OF THIS PROBLEM, I BELIEVE TEXT CITED ABOVE SHOULD BE DELIVERED AS SOON AS POSSIBLE TO INSURE THAT GROC APPRECIATES CONTINUED HIGH LEVEL US CONCERN. THIS WILL PROVIDEGROC OPPORTUNITY TO STUDY THE TEXT WHILE AWAITING ANNEX. IN ANY CASE, ANNEX SHOULD CONTAIN NO SURPRISES, SINCE GROC IS PRESUMABLY AWARE OF ALL OUTSTANDING COTTON CONTRACTS.

6. WITH REGARD TO THE GROC REQUEST THAT THE USG CONSIDER CONFIDENTIAL

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LOWERING THE INTEREST RATE ON CCC CREDIT, YOU MAY, IF NECESSARY TO OBTAIN THE WRITTEN ASSURANCES, INFORM THE GROC THAT THE RATE WILL BE LOWERED, PERHAPS TO 8-1/2. WHILE A NUMBER OF FACTORS ARE INVOLVED IN SETTING THE CCC INTEREST RATE, OUR INTENT TO LOWER THE RATE REFLECTS OUR EFFORTS TO BE AS RESPONSIVE TO ROC REQUEST AS POSSIBLE. THE INTEREST RATE SHOWN ON THE LETTERS OF CREDIT CANNOT BE CHANGED FOR THE DURATION OF THE LOAN.

7. CCC CREDIT WILL BE PROVIDED TO THE ROC IN ACCORDANCE WITH THE EXISTING REGULATIONS GOVERNING EXTENSION OF ALL CCC CREDIT. THE EXCEPTIONS TO THESE REGULATIONS REQUESTED BY THE GROC, I.E., NO INTEREST DIFFERENTIAL BETWEEN US AND CCC-APPROVED FOREIGN BANKS, FINANCING OF OCEAN FREIGHT CHARGES, CANNOT BE GRANTED. HOWEVER, WE BELIEVE A LOWERING OF THE INTEREST RATE SHOULD SATISFY THE GROC DESIRE FOR USG CONCESSIONS.

8. IN CONJUNCTION WITH THE EMBASSY'S APPROACH, WE WILL PROVIDE THE ROC EMBASSY WITH THE ABOVE INFORMATION.

9. IF GROC AGAIN RAISES QUESTION OF ADDITIONAL CCC

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CREDITS, WE ARE HOPEFUL THAT YOU CAN SUCCEED IN GETTING THEM TO WITHDRAW REQUEST, PARTICULARLY IN LIGHT OF CONVERSATION WITH WANG REPORTED REF (C). IF AFTER DISCUSSIONS WITH GROCYOU CONCLUDE THAT SATISFACTORY SOLUTION OF PROBLEM IMPOSSIBLE WITHOUT ADDITIONAL CREDITS, PLEASE REPORT PROMPTLY. INGERSOLL

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